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Stock Market Indicators

Measuring market breadth

While many of the indicators that we have studied WRT individual stocks can also be applied to market averages, there is a class of indicators that are applicable mainly to markets.

Sample data

Important daily data:

NYSE Market Diary	Latest Close	Previous Close	Week Ago	
Issues Traded	3,450	3,457	3,433	← Pretty consistant
Advances	2,046	2,441	2,082	
Declines	1,235	871	1,201	← This is revealing
Unchanged	169	145	150	
New Highs	383	351	263	
New Lows	10	21	16	←
Advancing Volume	1,143,277,700	1,261,059,540	952,064,170	
Declining Volume	523,118,550	422,147,410	687,340,530	
Volume Traded	1,683,456,420	1,702,680,720	1,655,615,240	
Closing Tick	+ 368	+ 670	+ 547	
Closing Arms (trin)	0.76	0.94	1.25	
Block Trades	0	12,589	13,308	
Nasdaq Market Diary	Latest Close	Previous Close	Week Ago	
Issues Traded	3,203	3,183	3,155	
Advances	1,879	2,091	1,795	
Declines	1,160	977	1,235	
Unchanged	164	115	125	
New Highs	280	202	114	
New Lows	23	36	28	
Advancing Volume	1,341,287,403	1,378,732,910	1,373,921,826	
Declining Volume	714,193,486	498,576,384	654,525,355	
Volume Traded	2,084,767,997	1,900,345,785	2,047,653,864	
Block Trades	n.a.	12,221	13,358	
Amex Market Diary	Latest Close	Previous Close	Week Ago	
Issues Traded	1,132	1,121	1,084	
Advances	664	673	575	
Declines	374	364	426	
Unchanged	94	84	83	
New Highs	159	128	70	
New Lows	29	22	22	
Advancing Volume	41,553,610	31,803,654	31,899,195	
Declining Volume	14,975,474	21,529,725	17,870,000	
Volume Traded	59,440,684	55,792,179	52,319,815	

Comparing market averages

DJIA	12301.81	50.10	0.41%
Nasdaq	2446.33	3.58	0.15%
S&P 500	1400.12	3.55	0.25%
Japan*	16163.87	-79.6	-0.49%
DJ	3720.50	6.09	0.16%
STOXX50*		0	

* at close Source: Dow Jones, Reuters

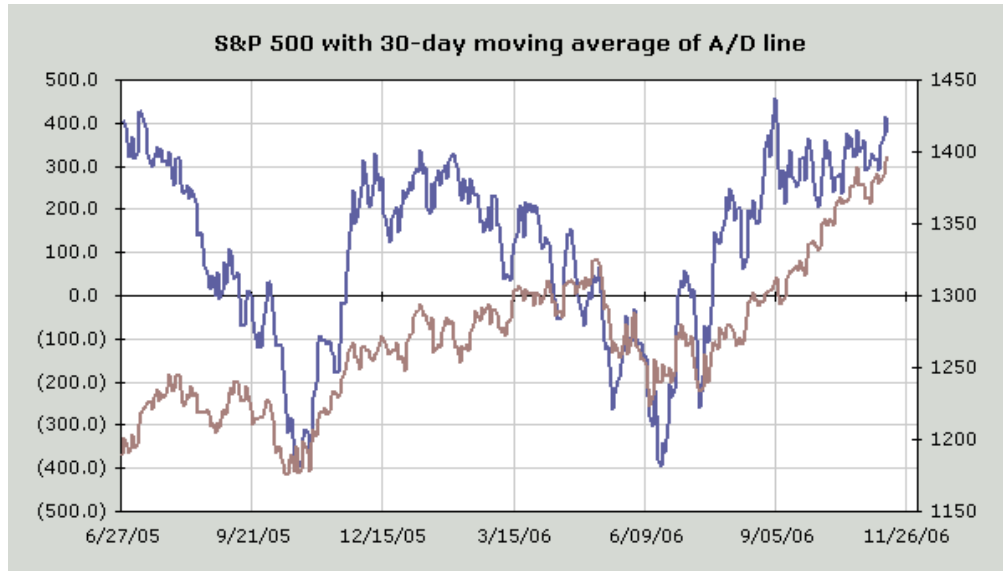
[Edit Markets Preference](#)

Not an exciting day, but the Dow Jones is doing better than the nasdaq and S&P.

The advanced-decline line

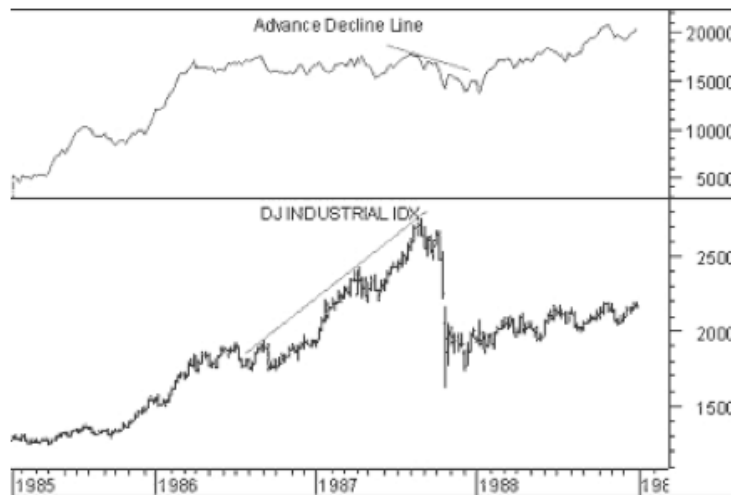


There are advance-divide lines for each of the major markets. You can also look at moving averages of the A/D line:



The brown line is the S&P

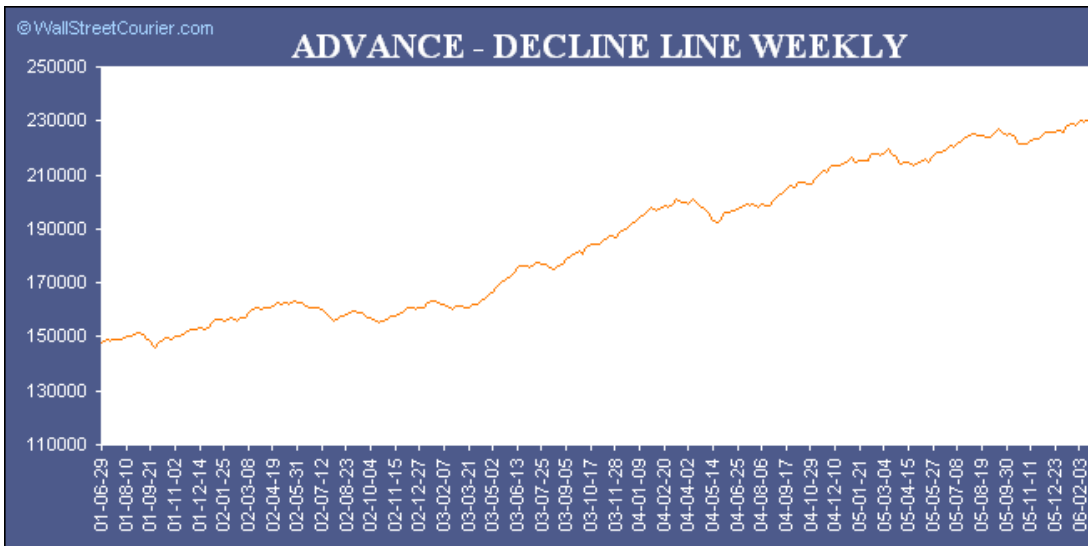
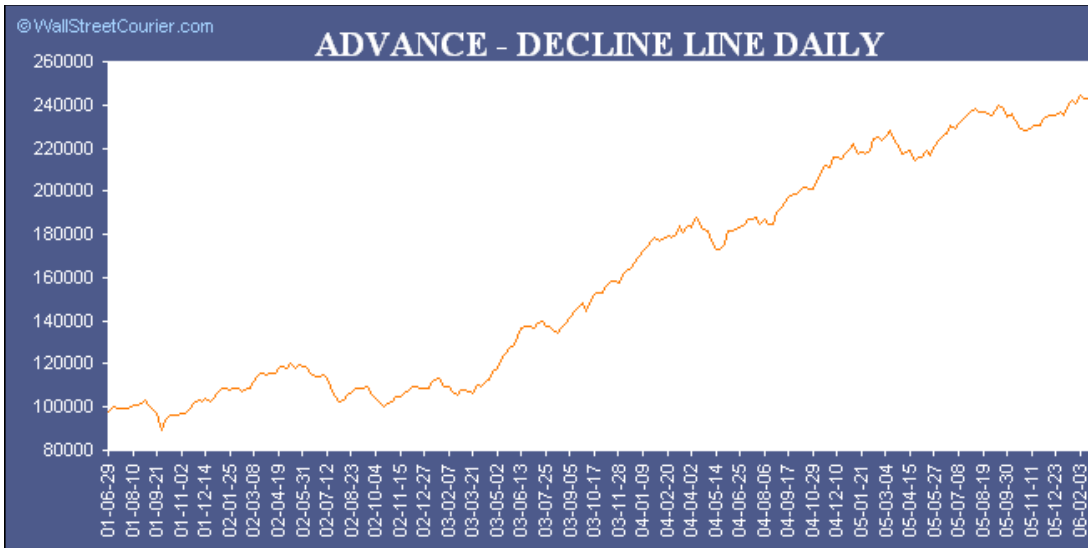
AD divergence



Leading up to the crash of 1987, the Dow was continuously making new highs, but the A/D line failed to do that.

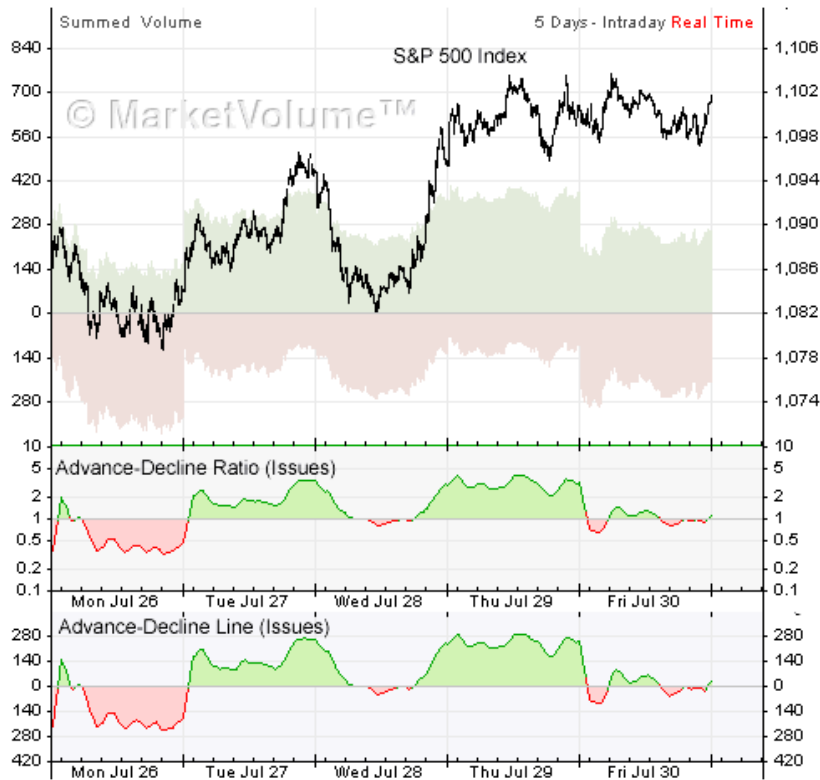
Daily vs weekly AD lines

The A/D line is good for short to intermediate comparisons, but less useful for comparisons going back several years. The weekly line looks at weekly advances vs declines.



The daily line looks quite good, but the weekly shows a rolling over line.

Variations in AD line



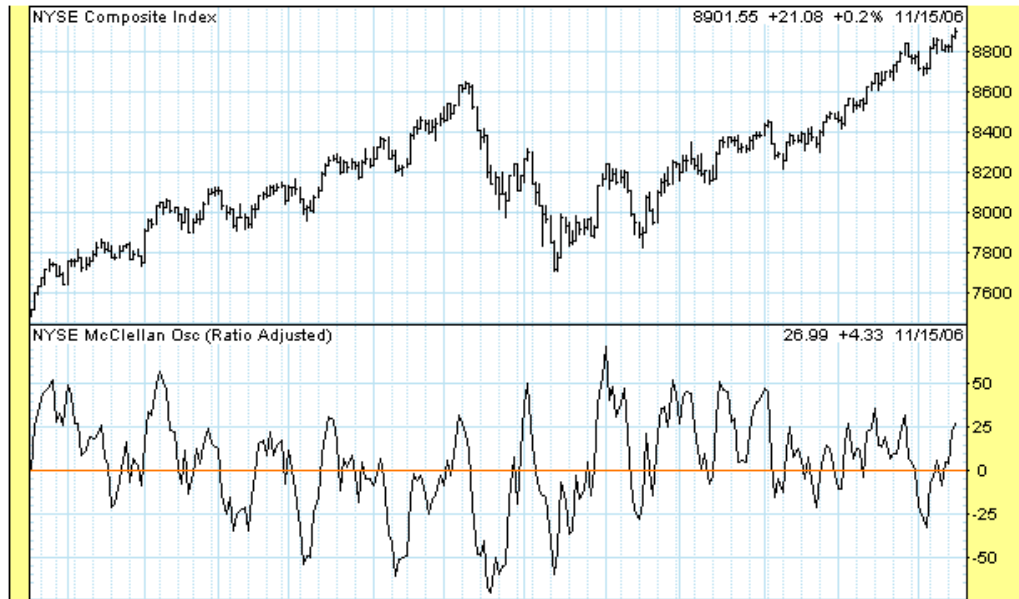
Most analysts prefer the A/D ratio as an indicator, because it is more amenable to comparisons than the A-D line. The A/D ratio has an absolute value that does not vary in function of the number of components being analyzed – it remains constant, regardless of the number of stocks under consideration. This is a big advantage, especially when analyzing entire stock exchanges, where the number of traded issues changes constantly

McClellan Oscillator

A market breadth indicator that is based on the difference between the number of advancing and declining issues on the NYSE. It is primarily used for short and intermediate term trading.

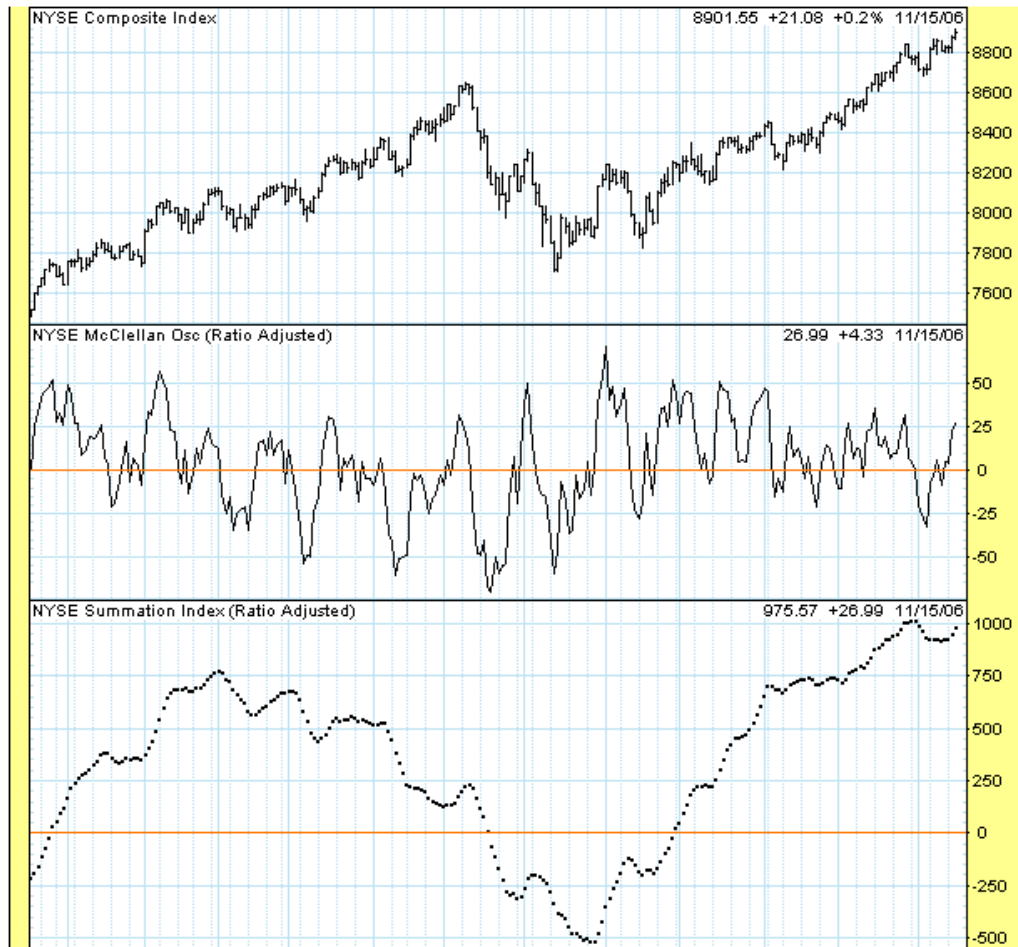
To calculate subtract a 39 day EMA (of advancing issues - declining issues) from a 19 day EMA (of advancing issues - declining issues).

Simplified, it looks as follows: (19 Day EMA of Advances - Declines) - (39 Day EMA of Advances - Declines)



Crossings above and below the zero line are short to intermediate buying and selling signals.

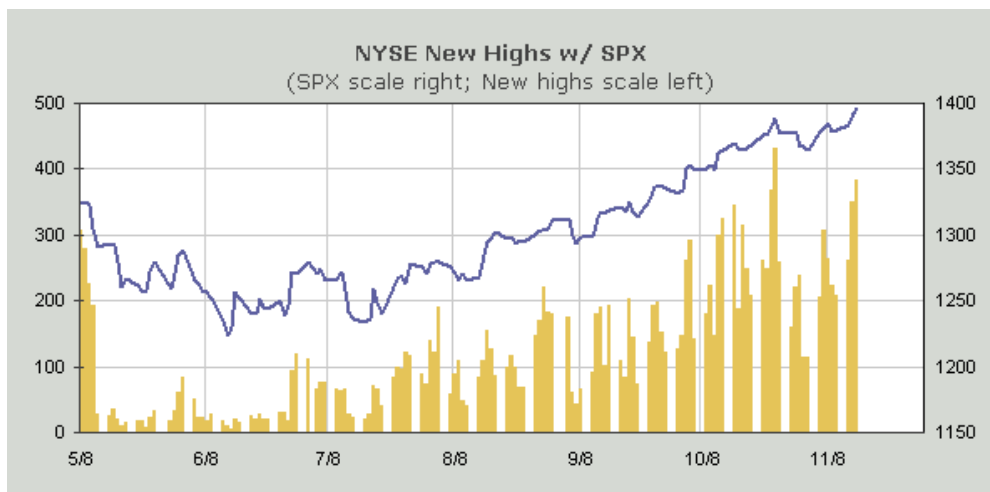
McClellan summation index



While the oscillator is short to intermediate term, the summation index is a cumulative sum of each day's positive or negative readings in the oscillator.

New Highs vs new lows

Here's a chart that includes new highs:



New high-new low index



This shows the New Highs - New Lows for the NYSE stocks. Note that lately, there have been more new highs than new lows.

Below we have the Nasdaq index:

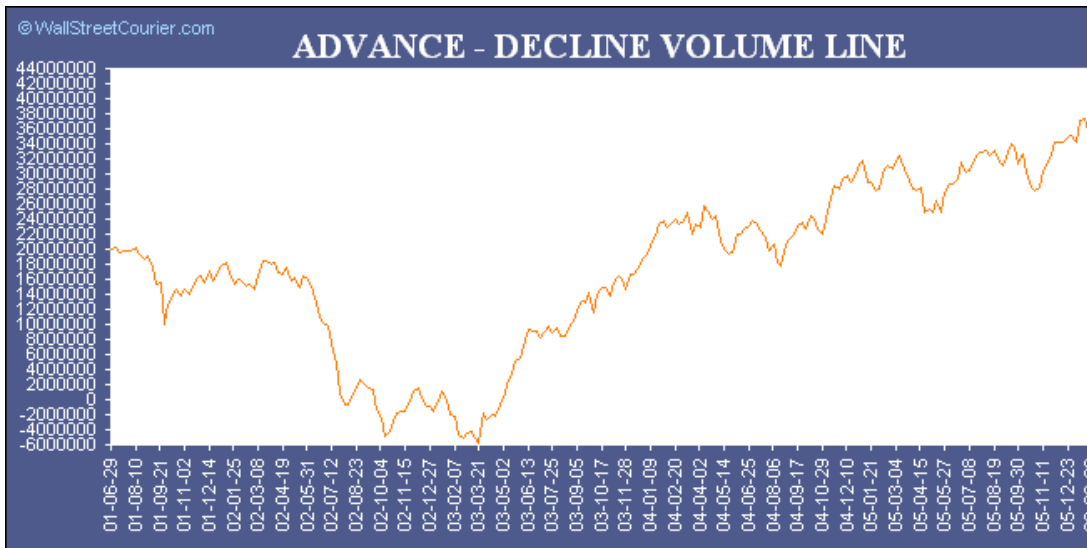


Upside vs. Downside volume

Your text has a sample chart of two lines, the 10-day average of stock market upside volume vs. downside volume.

If you divide upside (advance) volume by the downside (decline) volume, you can generate an index

like the following:



The Arms index

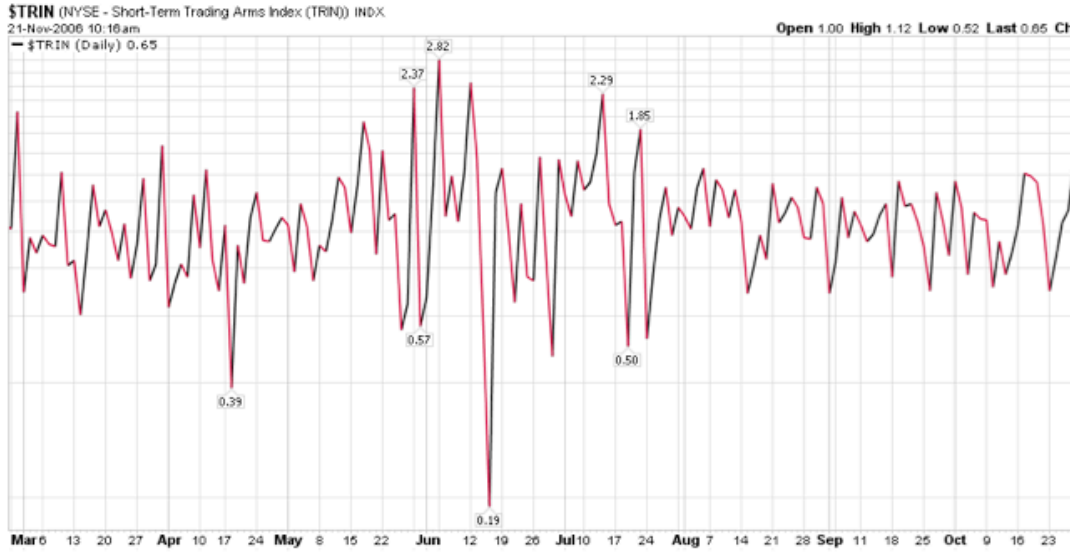
The Arms index (also called the TRIN) was developed by Richard Arms and is determined by the formula:

$$\text{TRIN} = \frac{(\text{advancing issues}/\text{declining issues})}{(\text{volume of advancing issues}/\text{volume of declining issues})}$$

A ratio of 1 means the market is in balance;
above 1 indicates that more volume is moving into declining stocks;
and below 1 indicates that more volume is moving into advancing stocks.

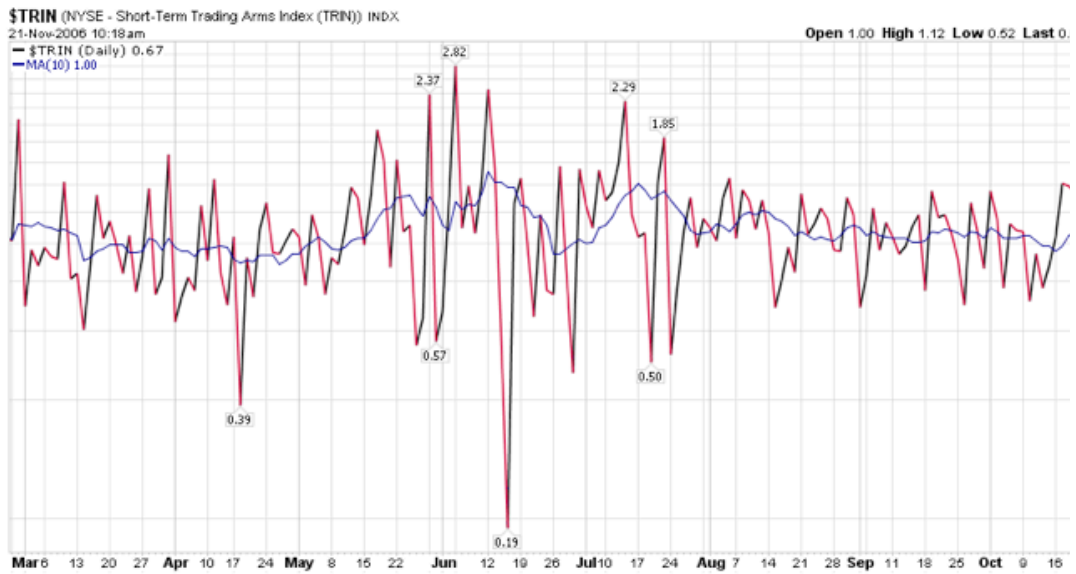
The index trends in the opposite direction of the market.

Sample chart:



Smoothing the Arms index

Using a 10 day moving average:



Dick Arms suggests:

Index above 1.2 is considered oversold,
 Index below .70 is considered overbought.

He also suggests using a 21 day and 55 day moving-average crossovers of the Arms Index to generate good intermediate term trades.

Open Arms

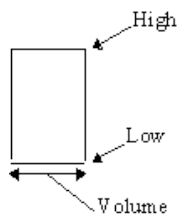
Consider the TRIM formula:

$$\text{TRIN} = \frac{(\text{advancing issues}/\text{declining issues})}{(\text{volume of advancing issues}/\text{volume of declining issues})}$$

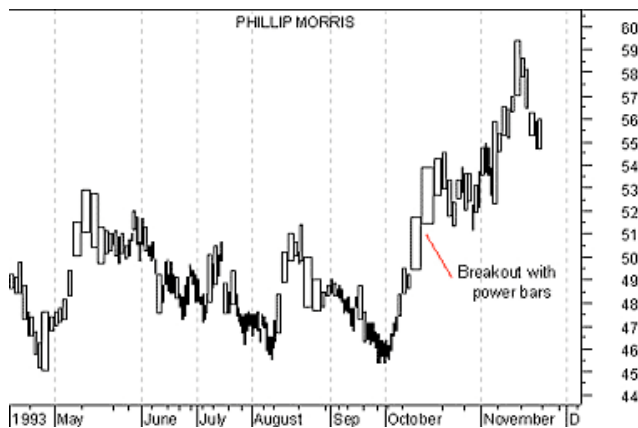
The "Open Arms Index" uses the same formula, but instead of using closing prices and volumes for each of the four entries, this index uses a 10 day average for each of the four entries. many analysts prefer this to the original index.

Equivolume charting

These charts are similar to bar charts, where one bar looks like the following:



Example



Candlepower

Example of an equivolume chart using a candlestick type bar.



Comparing market averages

Different markets to compare

Dow Industrials - a small number of large cap stocks

Chart

\$DJA (Dow Jones Composite Average) INDX

21-Nov-2006 11:36am

Open 4155.78 High 4161.40 Low 4151.72 Last 4155.56 Volume 93

\$DJA (Daily) 4155.56



S&P - a small number of large cap stocks

Chart



NYSE Index - includes all stocks traded on the NY Stock Exchange (about 2,800 companies are represented)

Chart



Nasdaq Composite (about 5,000 stocks represented) - is a **capitalization weighted index**. Thus large companies like Microsoft and Intel dominate the index.

Chart



Russell 2000 - small cap index; a truer measure of smaller stocks than Nasdaq.

Chart



Relative analysis

Nasdaq vs. S&P - tells whether tech stocks are leading or lagging. It's usually better for the market if Nasdaq is leading.

Russell 2000 vs. S&P - tells whether the smaller companies are leading or lagging over large caps. When Russell 2000 is lagging that's often a warning that market breadth is weakening.